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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 000565

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TAGS: [EFIN](#) [PTER](#) [KCRM](#) [PGOV](#) [SNAR](#) [PGOB](#) [IZ](#)
SUBJECT: IRAQ'S NEGLECTED MONEY LAUNDERING REPORTING OFFICE
EAGER TO IMPROVE

REF: A. INGALLS-ROLAND-NOVIS EMAILS JANUARY 2009
[1](#)B. 08 BAGHDAD 2431

Classified By: Acting EMIN Michael Dodman, reasons 1.4 (b,d).

[1](#)1. (C) SUMMARY: Iraq's two year-old Money Laundering Reporting Office (MLRO) is under-budgeted and under-staffed; lacks capacity; works out of woeful office conditions; and its work is hindered further by loophole-ridden anti-money laundering legislation that is self-contradictory and unenforceable. The MLRO leadership willingly admits that the unit cannot effectively oversee financial transactions in Iraq and lags well behind most of its regional counterparts. It has drafted new financial crimes legislation, but has been forced to cobble together its own standard operating procedures while it waits for the bill to move through the cumbersome GOI legislative process. Still, MRLO officials appear eager to improve their capacity. They claim that they benefited greatly from IMF-sponsored anti-money laundering training in Beirut, and anticipate Iraq will participate in the May MENA FATF meetings in Bahrain. MLRO officials welcomed the U.S. offer to have a Financial Sector Assessment Team (FSAT) conduct a baseline assessment this year, and agreed that a full MENA-FATF peer review would be valuable at a later date; however, CBI Governor Shabibi must still approve these actions. END SUMMARY.

Lack of Infrastructure

[1](#)2. (C) Treasury Attache and emboffs visited Iraq's MLRO and met with Director Sahib Badr Abood, Deputy Director Fawziya Kadhib Ali and Central Bank of Iraq (CBI) Legal Advisor Inam Yaseen Mohammed on May 2. The MRLO, an independent agency under the auspices of the CBI, employs about 30 staff and is housed in a dilapidated annex above a branch office of the state-owned Rafideen Bank. The Office suffers a lack of computers and office equipment, as well as limited and poorly operating telecommunications. A large generator in the cramped central courtyard provides most electricity, when fueled. MRLO personnel readily acknowledge that their office surroundings are not conducive to carrying out their regulatory and financial law enforcement responsibilities; they are especially frustrated by the inability to communicate with Iraqi banks electronically -- much less monitor them. The CBI (which Legal Advisor Mohammed described as "increasingly" supportive) has offered the MRLO new office space sometime in the future, but plans are still unclear. (NOTE: Since suffering a fire early last year, the CBI and all its affiliates have faced difficulties in securing adequate working space -- a problem that is expected to be alleviated this year when it opens new facilities. See Reftel B.)

Bad Legislation

[1](#)3. (C) Abood and Mohammed also readily acknowledged that they are seeking to enforce anti-money laundering legislation that is woefully inadequate. CPA Order No. 93, the Anti-Money

Laundrying Act of 2004, which U.S. Coalition Provisional Authority (CPA) officials drafted and enacted, is the basis of anti-money laundering law in Iraq. The Order generally complies with international standards, as it was based on model UN legislation; however, Mohammed explained, the Arabic text (as well as the English language copy we have) does not conform to Iraqi jurisprudence and contains self-contradictory -- and therefore unenforceable -- clauses.

For example, one article states that banks must report suspicious transactions and immediately freeze the assets of suspicious transactions and immediately freeze the assets of any individual or institution seeking to make them, while another section of Iraqi law forbids private banks from freezing assets without a court order. (In practice, banks do not freeze assets without a court order, Abood said.)

¶4. (C) To remedy the current legislation's shortcomings, a GOI interagency committee (that includes the MRLO) drafted a bill that, when enacted, will establish clearer procedures for bank reporting and oversight; will clearly define predicate money laundering offenses; will outline the MRLO's ability to impose penalties; and will widen the MRLO's authority over non-bank financial institutions such as, for example, "hawala" sector money traders. Unfortunately, the legislative process in Iraq is cumbersome and extremely slow, and neither Abood nor Mohammed would speculate on when the bill might ultimately be enacted. In the meantime, the MRLO currently tries to conduct oversight through a hodge-podge of SOPs derived from -- among other things -- CPA Order 93, other countries' regulations, and what MRLO senior officials can learn from regional training sessions and MENA-FATF publications. "Despite the legislation's delays," Mohammed said, "we are working to comply with MENA-FATF's '40

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Recommendations Plus 9," for example.

Eager to Improve Capacity

¶5. (C) Despite the lack of resources and decent legislation, Abood, Ali and Mohammed all expressed a keen desire to upgrade their unit's capacity through greater contact with MENA-FATF and others with financial crime expertise. Twenty-eight Iraqi officials from the MLRO, Customs, and the Interior and Justice Ministries attended IMF-sponsored anti-money laundering training in Beirut in January and found it to be of great benefit. "We are a self-motivated office," and eager to learn from experiences of countries like Lebanon and Egypt, Mohammed said. The MRLO is also urging the GOI to ratify the UN conventions that address money laundering and financial crime and to fulfill its commitments to the UN Convention against Corruption. The CBI nominated Abood to attend the MENA-FATF meetings in Bahrain in May -- marking the first time Iraq will participate since 2007. Mohammed and Abood understand that the MRLO is nowhere near ready for a MENA-FATF peer review at this time. However, they welcomed our offer to have a U.S. Financial Sector Assessment Team (FSAT) visit to conduct a baseline assessment sometime this year, pending the CBI Governor's approval.

Comment and Next Steps

¶6. (C) Iraq's MRLO has a long way to go before its legislative and technical capacity are up to a standard that will allow it to effectively oversee financial transactions in Iraq. However, its leaders are eager to improve and to conform with international standards, and have welcomed U.S. assistance -- a positive development in itself. The Embassy will continue its engagement, and MRLO officials have committed to securing the CBI Governor's approval for an FSAT visit and informing us of a suitable timeframe soon.

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